Annual Report 1974

THE GRAND UNION COMPANY

A GRAND UNION OF
ALL GOOD THINGS

GRAND
UNION

Directors and Officers The Grand Union Company

Directors

Charles G. Rodman
Chairman of the Board

Emerson E. Brightman
Executive Vice President

Martin J. Condon
Chairman of the Board, Conwood Corporation, Memphis, Tennessee, consumer products

Thomas R. Doyle
Executive Vice President

James M. Goldsmith
Chairman of the Board, Cavenham Limited, food retailing and manufacturing

Bowman Gray, III
President, General Occidental, Inc., Trenton, New Jersey, international finance

S. William Green
Regional Administrator, U.S. Department of Housing and Urban Development, government agency, New York City

Jack Greenhalgh
Executive Vice Chairman and Managing Director,Cavenham Limited, food retailing and manufacturing

Michael L. Haynes
Director, Cavenham Limited, food retailing and manufacturing

Rafael Pico
Vice Chairman, Banco Popular de Puerto Rico, San Juan, Puerto Rico

Arthur Ross
Vice Chairman and Managing Director, Central National Corporation, investments, New York City

Lionel J. Ross
Financial Director, Cavenham Limited, food retailing and manufacturing

Earl R. Silvers, Jr.
Administrative Vice President and Secretary

James Wood
President and Chief Executive Officer; Joint Deputy Managing Director, Cavenham Limited

Officers

James Wood
President and Chief Executive Officer

Emerson E. Brightman
Executive Vice President — Services

Thomas R. Doyle
Executive Vice President — Supermarkets

Ernest H. Berthold
Vice President — Merchandising

Glynn H. Coryell
Financial Vice President

Patrick A. Deo
Vice President — New York Region

J. Barron Leeds
Vice President — Labor Relations

Ralph D. Lytle
Vice President and Consultant, Northern Region

John J. Miles, Jr.
Vice President — Southern Region

John D. O'Connell
Vice President — Development

James G. Poulos
Vice President — Florida West Coast Development

Rodney L. Renne'
Vice President — Distribution

Caryle J. Sherwin
Vice President — Northern Region

Earl R. Silvers, Jr.
Administrative Vice President and Secretary

Vincent J. Veninata
Vice President and Executive Assistant, Northern Region

John H. Milbank
Treasurer

Lee E. Sappington
Controller

Baxter T. Duffy
Assistant Secretary

Frederick H. Guntsch
Assistant Secretary

Annual Report 1974

Financial Highlights 1974

	Fiscal year ended March 1, 1975	Fiscal year ended March 2, 1974
Sales	$1,562,736,010	$1,493,969,089
Income before income taxes	18,300,274	2,954,387
Net income	9,504,374	2,309,387
Income per common share	1.51	.35
Cash dividends per common share	.80	.80
Net income as a percent of sales	.61%	.15%
Working capital	$113,117,519	$97,028,144
Ratio of current assets to current liabilities	2.07 to 1	1.87 to 1
Average number of common shares outstanding	6,249,847	6,358,932
Number of common stockholders	13,972	14,445

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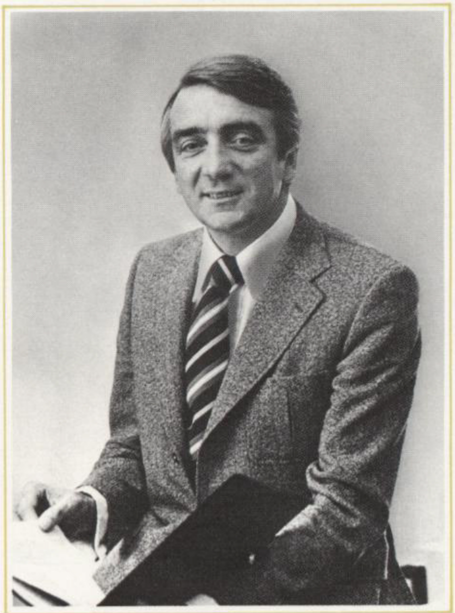
Opening day customers filled this new 33,600-square-foot Grand Union Family Center in Matawan, New Jersey, in February. The Supermarket Division of the Company opened 19 new food stores during fiscal 1974, including 11 new Family Centers.

President's Letter



James Wood
President and Chief Executive Officer

To Our Stockholders:

Grand Union recorded a new high in sales for the twelfth consecutive year during 1974. Sales for the 52-week fiscal year which ended on March 1, 1975, were $1,562,736,010, an increase of 4.6% over sales of $1,493,969,089 in the prior year.

The company had net income of $9,504,374, or $1.51 per share, during the 1974 fiscal year, compared with net income of $2,309,387, or 35 cents per share during 1973.

Included in the net income for the 1974 fiscal year was a net charge of $3,950,080 resulting from a charge of $4,923,313 for losses anticipated to cover the planned disposition of certain facilities and investments and a credit of $973,233 resulting from the company's re-evaluation of the estimated future redemption of trading stamps. Net income for the year would have amounted to $2.14 per share without these items.

Included in net income for the 1973 fiscal year was a charge of $5,801,410 for losses anticipated to cover the planned disposition of certain of the company's retail facilities and investments. Net income for the year would have amounted to $1.26 per share without these items.

On February 28, the Board of Directors changed the closing date of the fiscal year from the Saturday nearest the last day of February to the Saturday nearest the last day of March. This change, which became effective March 2, 1975, means that the company's fiscal year now coincides with that of Cavenham Limited, the British food retailing and manufacturing firm that currently owns a majority of Grand Union's common stock.

There are signs that the severe food price spirals which affected our industry during 1974 and the unprecedented rate of inflation are slowing down. In addition, during 1974 federal price controls were eliminated, and the nation's supply situation improved. Hopefully, these changes signal a return to a more normal, healthy economy.

As inflation rose through the year and was reflected in higher food prices, many consumers switched their mix of purchases more towards basic, staple foods. A return to a stabilized economy should create more traditional consumer purchasing practices.

On August 1, 1974, I was named President and Chief Executive Officer of the company, while retaining my position as Joint Deputy Managing Director of Cavenham with responsibility for all its retail operations.

The past year has been a period of structural reorganization. New management groups were established to insure greater control of all aspects of the company. These included a Management Executive Board to monitor the company's operations, a Supermarket Operations Board to oversee the Supermarket Division, a Distribution Operations Board to supervise trucking and warehousing operations, and a Real Estate Board to direct growth of the company's physical plant.

To better coordinate all activities of the Supermarket Division, operations were restructured into three geographic regions, each headed by a corporate vice president. A corporate vice president at the headquarters level coordinates all merchandising functions. The new Northern Region includes the Empire and Central Divisions with 188 stores in upstate New York, Vermont, New Hampshire and sections of Massachusetts and Connecticut. The New York Region includes the Eastern and Western Divisions with 190 stores in metropolitan New York, New Jersey and Connecticut. The new Southern Region includes 125 stores in the Washington, Florida and Caribbean Divisions with operations in Maryland, Virginia, West Virginia, Florida, Puerto Rico and the U.S. Virgin Islands.

Strong new programs and systems have been devised and implemented to improve management control and provide greater information in all fiscal and operational areas. Controls on labor and other costs have been strengthened, and a thorough review has been made of all operational units.

The decision was made to close and dispose of a number of unprofitable and marginal stores. These included 47 food stores, nine Grand Way general merchandise stores and five Grand Catalog Showrooms. In addition, 39 E-Z Shop convenience food stores were sold and the division closed. At the same time, we opened 19 new food markets, renovated 21 and enlarged five more.

To meet consumer demand for a new marketing strategy, the company phased out trading stamps in 190 stores in its New York Region which operates supermarkets in the New York metropolitan area. This program was further expanded into the Central Division and a few adjoining stores in the Empire Division in March.

The stamp de-entry programs were coupled with significant retail price reductions, intense new advertising campaigns making use of a "Grand Union of All Good Things" slogan and greater use of the electronic media. These programs were complemented by a new and totally different in-store merchandising approach.

Three new Directors were named to the Board of Directors. They are Thomas R. Doyle, Senior Vice President of the company since 1968 who was promoted to Executive Vice President — Supermarkets; Jack Greenhalgh, Executive Vice-Chairman of Cavenham Limited, and Lionel J. Ross, Cavenham's Financial Director.

The new Directors fill vacancies created by the resignations of Irving Kahn, Director of the company since 1946; Robert J. McDonald and Arthur J. Quinn. I want to express our sincere appreciation to these men for their significant contributions to the company over the years.

The Board of Directors elected John J. Miles, Jr., and Rodney L. Renne' as Corporate Vice Presidents. Mr. Miles is in charge of the company's Southern Region. Mr. Renne' is responsible for warehousing and trucking operations.

Grand Union is well poised for 1975. Comprehensive merchandising and development plans have been formulated, new management systems are progressing well and all major sections of the company with a history of loss-making have been eliminated.

Operations have been streamlined with an emphasis on profitability, and the company is well positioned for a further increase in both sales and earnings.

One of Grand Union's greatest assets is its 22,000 people at all levels of the company. Their hard work and dedication is appreciated. To all members of the Grand Union team, we give our heartfelt thanks.

Sincerely,

James Wood

James Wood
President and
Chief Executive Officer

May 22, 1975

Review of Operations

Supermarket Division

The Supermarket Division performed well during 1974, reacting quickly and effectively to changing consumer buying patterns, high unemployment and a recessionary economy.

The division, which accounts for 93% of the company's sales, met the challenge of a downward economy by adopting a new and more aggressive merchandising strategy. In many areas, trading stamps were discontinued and a revised pricing policy adopted to meet the demands of a price-oriented economy. Advertising programs making good use of radio and television were implemented, and greater promotional emphasis was given to new merchandising approaches.

Tighter control over the day-to-day operation of stores was achieved through the reorganization of the Supermarket Division into three geographically-based regions. The Empire Division in upstate New York and New England and the Central Division in western New York were brought under the control of a new Northern Region.

The Eastern and Western Divisions in the tri-state New York-New Jersey-Connecticut area constitute the New York Region. The Washington, Florida and Caribbean Divisions were placed under a new Southern Region. Each region is headed by a corporate vice president who reports to the Executive Vice President — Supermarkets.

Capital development continued with a total of 19 new food stores opened, including 11 larger Family Centers, for a total of 388,000 square feet of new selling area. Twenty-one other units were renovated and modernized and five more were enlarged. Forty-seven older or loss-making stores were closed.

Plans for 1975 call for opening 11 more new stores, adding 255,000 square feet of selling area. Of the new stores, eight will be Family Centers. The company is renewing its efforts to renovate and refurbish older stores to continue to capitalize on the Grand Union image. During the year, 37 stores are scheduled for renovation and another five will be enlarged. Development in new market areas around Baltimore and on the West Coast of Florida will continue.

We anticipate that the division will do well this year. A slow-down in inflation is expected further to accelerate competitive activities, but, nonetheless, the Supermarket Division is demonstrating that it can meet today's challenges.

Grand Way Division

As announced last year, the Grand Way general merchandise store division was consolidated and streamlined. Nine unprofitable or marginal

Grand Union introduced a new advertising theme during the year, using the slogan "A Grand Union of All Good Things." New television commercials were shot on location in Grand Union's Oakland, New Jersey, Family Center.

Joseph Colon, General Manager of Grand Union's Landing, New Jersey, Family Center offers a sample of freshly-baked pastry to this young housewife and her child.

units were closed, and the division was regrouped into a profitable unit of 14 stores.

Store and merchandising supervision has been reorganized in line with the smaller nucleus of stores, and a system of effective controls has been instituted.

With the consolidation period completed, the division can now concentrate on improvements in operations and merchandising so it can continue its current useful profit contribution to the company.

E-Z Shop Division

During the year, an evaluation was made of the E-Z Shop convenience food store division. The study indicated that these small, 2,400-square-foot units were not as remunerative as anticipated in the geographical areas where they were being operated. Accordingly, the division has been disposed of.

Triple-S Blue Stamps

Triple-S Blue Stamps, which are distributed by the company's wholly-owned Stop and Save Trading Stamp Corporation, were discontinued at Grand Union supermarkets throughout the New York metropolitan area during the year to meet consumer demand for keener prices. In March, 1975, stamps were dropped in the company's Central Division as well as a few adjoining stores in the Empire Division.

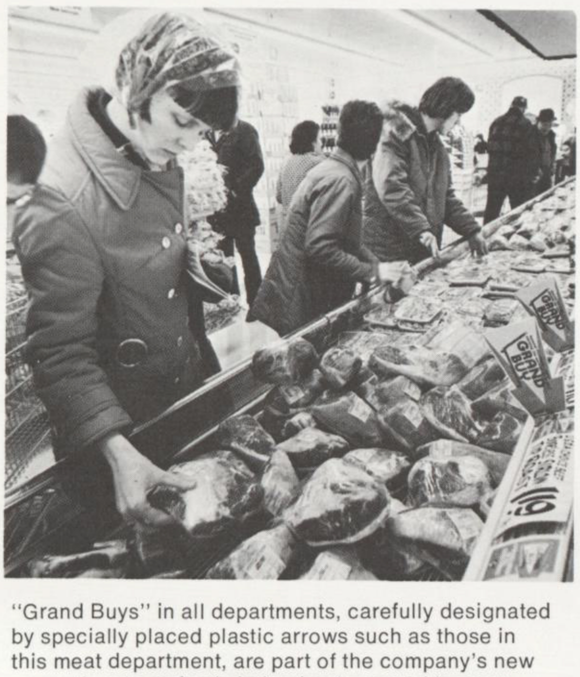
The company will continue to distribute Triple-S stamps in areas where current experience indicates that they are an effective and viable promotional tool. Full redemption service will be maintained in those areas.

Grand Catalog Showrooms

This new division of Grand Union commenced operations in 1972 in an economic climate which has not helped in assessing the future profitability of this type of operation.

In an endeavor to hold our investment to a viable minimum, five unprofitable catalog stores have been closed, leaving a nucleus of 14 units to continue operations during 1975. The performance of this division will be subject to further review as the year proceeds.

The range of merchandise offered has been reviewed and rationalized to the fastest selling items. A new catalog will be distributed in the Fall, prior to the commencement of the peak season business.



"Grand Buys" in all departments, carefully designated by specially placed plastic arrows such as those in this meat department, are part of the company's new promotional emphasis being implemented in most supermarkets.

Pretty Sharon Calvey examines some of the dozens of Grand Union baked items which are now being marketed under the new "L'Ovenbest" label which was introduced in April, replacing the Nancy Lynn brand.

Other Activities

The North American Equipment Corporation, a wholly-owned manufacturer of materials handling equipment, had a profitable year despite the current unfavorable economic conditions.

The Grand Properties Company, a division of Grand Union, purchases real estate and arranges for the construction of company-owned Grand Union supermarkets and other facilities. It also negotiates for the disposition of closed company properties. During the year, the Grand Properties Company successfully disposed of 41 leases on closed units, as well as assisting in other real estate projects.

Administrative Developments

A new Department of Corporate Communications and Consumer Affairs was established under Floyd D. Rodgers, Jr., who was also named a Vice President. The department represents a consolidation of the consumer affairs, public relations, customer relations and trade relations departments. It enables the company to coordinate all types of communication activities to customers and shareholders.

The revised structure gives greater emphasis to Grand Union's on-going concern for consumer rights in all areas, and upgrades the consumer affairs and communications functions to a higher management level.

The company's Financial Department is streamlining and improving its electronic data processing systems and is updating all fiscal reporting functions. These changes greatly increase the flow of useful data available to management, and allow greater adherence to sound financial management principles.

Management development programs are continuing on all levels of the company. The program is especially stressing the development of young executives into positions of authority and responsibility in anticipation that other senior officers will be retiring in several years.

Cavenham Limited

Grand Union became a part of Cavenham Limited, the British-based food retailing and manufacturing organization, on December 7, 1973. The relationship has been beneficial to both parties.

During the first full year of its association with Cavenham, Grand Union has received significant management assistance, especially in the area of financial controls and operations.

As this relationship continues, Grand Union and Cavenham personnel will continue their close liaison to help both companies grow and prosper.

Grand Rx pharmacies located in Grand Union and Grand Way stores offer special discounts on all prescriptions to senior citizens.

Lois W. Spotholz, Director of Home Economics, checks nutritional information on the labels of the company's own brand of food for accuracy before the packages are printed.

The company's Financial Department uses the most modern technological tools for order processing, inventory control, payroll and management information.

Consolidated Statements Of Income and Reinvested Earnings

The Grand Union Company and Subsidiaries

	Fiscal year ended March 1, 1975	Fiscal year ended March 2, 1974
Sales	$1,562,736,010	$1,493,969,089
Cost of sales	1,228,743,622	1,177,441,589
Gross profit	333,992,388	316,527,500
Operating and general expenses:		
Salaries and wages to employees in store operations	145,140,255	145,173,109
Other selling, administrative and general expenses (notes 8, 10 and 11)	162,150,943	156,380,211
Other deductions (income):		
Provision for store closings (note 11)	2,093,000	9,039,000
Write down of preferred stocks (note 9)	4,618,843	1,864,100
Interest, principally on notes and debentures	4,879,958	2,610,260
Loss (gain) on disposition of fixed assets	405,572	(131,646)
Interest on temporary cash investments	(2,317,733)	(663,321)
Dividends from investments	(1,278,724)	(698,600)
Income before income taxes	18,300,274	2,954,387
Income taxes (notes 1 and 3)	8,795,900	645,000
Net income	9,504,374	2,309,387
Reinvested earnings, beginning of period	47,600,320	50,476,713
	57,104,694	52,786,100
Less cash dividends:		
Common, 80¢ per share	4,995,194	5,083,550
Preferred, $2.25 per share	97,901	102,230
	5,093,095	5,185,780
Reinvested earnings, end of period	$ 52,011,599	$ 47,600,320
Income per common share (note 1)	$1.51	$ .35

See accompanying notes to financial statements.

ASSETS		
	March 1, 1975	*March 2, 1974*
Current assets:		
Cash (note 7)	$ 4,580,082	$ 1,183,892
Temporary cash investments, at cost (approximates market)	40,232,534	5,577,288
Investments in preferred stocks (note 9)	4,781,588	21,953,259
Accounts receivable	8,077,562	8,339,285
Inventories (note 1)	145,497,096	153,889,252
Deferred federal income tax benefits (notes 1 and 3)	6,168,690	8,083,840
Prepaid expenses and operating supplies	4,422,412	6,304,055
Properties to be sold within one year (note 1)	4,595,618	3,598,319
Total current assets	218,355,582	208,929,190
Property, net (notes 1 and 2)	106,234,181	107,513,660
Cost in excess of net assets of businesses acquired (note 1)	7,411,998	7,411,998
Other assets and deferred charges	3,806,672	2,155,112
Total assets	$335,808,433	$326,009,960
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	$101,268,266	$109,457,147
Federal income taxes (notes 1 and 3)	3,076,940	2,443,899
Notes payable (note 6)	892,857	—
Total current liabilities	105,238,063	111,901,046
Notes payable (note 6)	59,107,143	45,000,000
Subordinated debentures, 4⅛%, due 1978	434,000	485,000
Liability for unredeemed trading stamps (note 11)	2,300,000	3,700,000
Deferred federal income taxes (notes 1 and 3)	14,049,388	12,379,814
Deferred investment tax credit (note 3)	230,000	450,700
Other non-current liabilities and reserves	521,267	583,476
	181,879,861	174,500,036
Commitments and contingencies (notes 6, 7, and 8)		
STOCKHOLDERS' EQUITY		
4½% cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued 45,584 shares	2,279,200	2,279,200
Common stock, $5 par value, authorized 9,000,000 shares, issued 6,609,078 shares (note 5)	33,045,390	33,045,390
Additional paid-in capital (note 4)	74,231,309	74,236,471
Reinvested earnings (note 6)	52,011,599	47,600,320
	161,567,498	157,161,381
Less, treasury stock at cost (note 4)	7,638,926	5,651,457
	153,928,572	151,509,924
Total liabilities and stockholders' equity	$335,808,433	$326,009,960

See accompanying notes to financial statements.

Consolidated Statements Of Changes In Financial Position

	Fiscal year ended March 1, 1975	March 2, 1974
FUNDS PROVIDED:		
Net income	$ 9,504,374	$ 2,309,387
Charges to income not affecting working capital:		
Depreciation and amortization	18,638,420	15,775,847
Deferred income taxes and investment tax credit	1,448,874	305,399
Provision for stamp redemptions (non-current portion)	2,300,000	3,700,000
Other	—	375,000
Working capital provided from operations	31,891,668	22,465,633
Long term borrowings	15,000,000	45,000,000
Book value of property sales and reductions	4,784,860	2,539,478
	51,676,528	70,005,111
FUNDS USED:		
Dividends	5,093,095	5,185,780
Property additions	22,143,801	29,947,065
Reduction in long term debt	892,857	—
Purchases of Company's preferred and common stocks	1,999,512	15,681
Non-current portion of stamp reserve becoming current	3,700,000	3,000,000
Other changes, net	1,757,888	481,002
	35,587,153	38,629,528
Increase in working capital	$16,089,375	$31,375,583
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ 3,396,190	$(1,625,089)
Temporary cash investments	34,655,246	1,947,337
Preferred stocks	(17,171,671)	21,953,259
Accounts receivable	(261,723)	2,824,824
Inventories	(8,392,156)	26,339,870
Deferred federal income tax benefits	(1,915,150)	3,719,653
Prepaid expenses and operating supplies	(1,881,643)	701,182
Properties to be sold within one year	997,299	(6,800,250)
	9,426,392	49,060,786
Increase (decrease) in current liabilities:		
Notes and accounts payable and accrued liabilities	(7,296,024)	17,282,032
Federal income taxes	633,041	403,171
	(6,662,983)	17,685,203
Increase in working capital	$16,089,375	$31,375,583

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies:

The following accounting principles and practices significantly affect the determination of financial position and results of operations of The Grand Union Company and its subsidiaries.

(a) Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Significant intercompany transactions and balances have been eliminated.

(b) Inventory Valuation: Inventories are valued principally at the lower of average cost or market, using the retail method for store inventories, and average cost for warehouse and other inventories.

(c) Property: The costs of significant additions, renewals and betterments of leased and owned properties are capitalized. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense currently. Depreciation is computed, principally on the straight line method, to amortize the cost of depreciable properties over their useful lives. Leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives. Properties expected to be sold within the ensuing year under sale and leaseback arrangements are classified as current assets.

(d) Pre-opening Costs: Store pre-opening costs and carrying charges relating to land held for development or sale are charged to expense in the year incurred.

(e) Costs in Excess of Net Assets of Businesses Acquired: Costs in excess of net assets of businesses acquired arose from acquisitions prior to November 1, 1970. The Company does not believe that the excess has diminished in value and accordingly is not amortizing such amount.

(f) Income Taxes: Income taxes are provided on financial statement income. Differences between income taxes provided and the actual amounts payable result in adjustments to the deferred or prepaid tax accounts. Such differences arise primarily through the use of accelerated methods of depreciation for tax purposes and the recording of certain reserves for financial statement purposes which are not deductible for tax purposes until the expenses are actually incurred. Investment tax credits are accounted for as a reduction of income taxes in the year that the assets which give rise to the credit are placed in service.

(g) Trading Stamp Revenues and Expenses: The Company records stamp revenue and provides for estimated cost of redemptions at the time of issuance, based on periodically reviewed operating experience.

(h) Net Income Per Share: Net income per share of common stock is based on the weighted average number of shares of common stock outstanding during the period after giving effect to dividends on preferred stock. Stock options outstanding during the respective fiscal years had no dilutive effect.

(i) Pension Plan: The Company maintains a non-contributory, trusteed pension plan for eligible employees. The Company's policy is to fund pension costs accrued. Pension expense under the plan consists of normal cost less amortization of past service credits over a twenty year period.

(2) Property: Property, at cost, consisted of the following:

	March 1, 1975	*March 2, 1974*
Land	$ 6,250,136	$ 5,548,560
Buildings	7,646,773	7,377,158
Fixtures and equipment	158,473,688	150,546,175
Leasehold improvements	36,747,495	36,522,060
	209,118,092	199,993,953
Less — Accumulated depreciation and amortization	102,883,911	92,480,293
	$106,234,181	$107,513,660

(3) Income Taxes: The components of income tax expense are as follows:

	Fiscal year ended	
	March 1, 1975	*March 2, 1974*
Federal income taxes:		
Currently payable	$3,839,000	$3,069,000
Amortization of deferred investment tax credit applicable to 1967 and prior years	(221,000)	(267,000)
Deferred, consisting of:		
Excess of accelerated tax depreciation over book depreciation	1,149,000	588,000
Difference between liabilities provided and payments made:		
Dispositions of unprofitable stores	2,326,000	(3,640,000)
Pension costs	—	(298,000)
Vacation salaries	—	(38,000)
Catalog costs	39,000	71,000
Other	70,000	170,000
State income taxes	1,593,900	990,000
Total income tax provision	$8,795,900	$ 645,000

The reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for federal and other income taxes is as follows:

	Fiscal year ended	
	March 1, 1975	*March 2, 1974*
Provision computed at 48% of pre-tax income	$8,784,000	$1,418,000
Increase (decrease) in the provision resulting from:		
Current year's investment tax credit	(1,225,000)	(1,326,000)
Amortization of deferred investment tax credit	(221,000)	(267,000)
85% dividends received deduction	(521,000)	(285,000)

Capital gains or losses (net), taxed at a rate less than 48%	362,000	312,000
State and local taxes, net of federal tax benefit	829,000	515,000
Capital losses not currently deductible for tax purposes	1,084,000	284,000
Other, net	(296,100)	(6,000)
	$8,795,900	$ 645,000

No recognition can be made in the income tax provision for capital loss carryforwards of $3,208,000 at March 1, 1975 which are available to offset future capital gains through March 31, 1979, because utilization of these losses is not assured beyond a reasonable doubt.

(4) Stockholders' Equity: The changes in additional paid-in capital and treasury stock are shown below:

	Additional paid-in capital	*Treasury Stock*
Balance March 3, 1973 (includes 285,106 common shares and 4,539 preferred shares held in Treasury)	$74,469,495	$6,740,762
Issuance of 41,952 shares of common stock for a minor acquisition	(327,435)	(972,447)
Retirement of 4,539 shares of preferred stock	94,411	(132,539)
Purchase of 580 shares of preferred stock	—	15,681
Balance March 2, 1974 (includes 243,154 common shares and 580 preferred shares held in Treasury)	74,236,471	5,651,457
Issuance of 605 common shares for exercised stock options	(5,162)	(12,044)
Purchase of 167,506 shares of common stock	—	1,841,664
Purchase of 5,377 shares of preferred stock	—	157,849
Balance March 1, 1975 (includes 410,055 common shares and 5,957 preferred shares held in Treasury)	$74,231,309	$7,638,926

(5) Stock Options: All remaining options under the 1964 stock option plan expired in fiscal 1974. No options were exercised under the plan during the years ended March 1, 1975 and March 2, 1974.

Pursuant to a non-qualified plan approved by the stockholders in May, 1973, the Company was authorized to grant to key employees options to purchase 600,000 common shares at option prices equal to at least the fair market value at the date of grant. Options granted become 50% exercisable six months after the date of grant and 100% exercisable one year from the date of grant.

No options may be granted after December 31, 1977 and no shares may be purchased under an option after seven years from the date of grant or after December 31, 1984, whichever date occurs sooner.

The following is a summary of stock option transactions:

		Number of shares	
	Price per share	*Under Option*	*Available for Option*
At inception of plan, May, 1973			600,000
Granted	$11.375-$13.00	149,025	(149,025)
Outstanding at March 2, 1974	11.375- 13.00	149,025	450,975
Granted	—	—	—
Exercised	11.375	(605)	—
Cancelled	11.375	(8,425)	8,425
Outstanding at March 1, 1975	$11.375-$13.00	139,995	459,400

Options to purchase 139,995 shares and 71,438 shares were exercisable at March 1, 1975 and March 2, 1974, respectively.

(6) Notes Payable: Notes payable consisted of the following:

	March 1, 1975	*March 2, 1974*
Revolving credit notes, interest at 1/4 of 1% above prime (8¾% at March 1, 1975) due November 10, 1975	$25,000,000	$25,000,000
Promissory notes, interest at 8%, due September 1, 1993	35,000,000	20,000,000
	60,000,000	45,000,000
Less current portion	892,857	—
Long term portion	$59,107,143	$45,000,000

As provided by the terms of the Revolving Credit and Loan Agreement, it is management's intention to exercise its option to convert these notes to term notes prior to the expiration of the option on November 11, 1975. The term notes will be payable quarterly in twenty-eight equal installments beginning ninety days after the date of the term notes. Accordingly these notes have been classified as long term liabilities less portion due within one year. The agreement provides that, upon final payment of the term notes, the average interest rate under the revolving credit and term notes will be limited to 7¾%.

The promissory note is payable to an institutional lender. The agreement requires annual repayments of principal from 1979 to 1993 increasing from $1,000,000 to $3,500,000.

Each of the agreements contain certain dividend and other restrictions. At March 1, 1975, approximately $6,700,000 of reinvested earnings were free of such restrictions.

(7) Compensating Balances and Borrowing Arrangements: The Company has borrowing arrangements with a number of banks which generally call for the informal, but not legally binding, maintenance of compensating balances averaged over a yearly period in amounts equal to 10% of the bank lines of credit (aggregating $42,000,000) plus 10% of borrowings under some lines of credit. Compen-

sating balances maintained under these agreements approximated $4,200,000 at March 1, 1975. A substantial portion of the compensating balances is normally covered by incompleted transactions with banks. Short term borrowings during the year were not significant.

(8) Property Leases: The Company operates principally in leased stores, distribution facilities and offices and, in most cases, holds renewal options with varying terms. Many of the leases contain escalation clauses which provide for increased rentals based upon increases in real estate taxes and lessors' operating expenses.

Total rental expense under all leases was as follows:

	Fiscal year ended	
	March 1, 1975	*March 2, 1974*
Minimum annual rents on non-cancellable financing leases (net of sublease rental income of $1,177,053 and $984,857, respectively) . . .	$16,996,273	$15,427,446
Minimum annual rents on other leases (net of sublease rental income of $214,263 and $171,078, respectively) . . .	9,932,371	10,327,308
Contingent rentals on non-cancellable financing leases (no sublease rental income)	795,149	584,929
Contingent rentals on other leases (no sublease rental income)	372,470	460,474
Total rental expense	$28,096,263	$26,800,157

Minimum annual rents, not including real estate taxes and additional payments based on percentages of sales, are as follows:

		March 1, 1975	
	Financing	*Other*	*Total*
1975	$16,689,659	$ 6,835,801	$23,525,460
1976	16,486,703	5,999,437	22,486,140
1977	15,945,599	5,404,719	21,350,318
1978	15,018,841	4,405,040	19,423,881
1979	14,204,413	3,723,119	17,927,532
1980-84	61,505,335	11,519,604	73,024,939
1985-89	44,765,443	2,843,521	47,608,964
1990-94	25,941,698	177,992	26,119,690
Remainder .	2,830,915	—	2,830,915

Amounts in the table above reflect the following deductions for sublease rental income:

		March 1, 1975	
	Financing	*Other*	*Total*
1975	$1,222,289	$254,710	$1,476,999
1976	1,009,977	216,410	1,226,387
1977	922,266	151,264	1,073,530
1978	854,094	135,514	989,608
1979	766,659	113,795	880,454
1980-84	2,949,150	391,160	3,340,310
1985-99	1,131,565	262,007	1,393,572

The net present value (based on interest rates existing at the commencement of the lease, ranging from 5.00 — 10.50% with a weighted average of 8.38% and 7.93% for 1974 and 1973, respectively) of minimum annual rents on non-capitalized financing leases is $120,301,831 and $143,356,109 for fiscals 1974 and 1973, respectively. These amounts have been reduced by the present value of sublease income of $6,126,222 in 1974 and $3,944,128 in 1973.

On the assumption that all non-capitalized financing leases as defined by the Securities and Exchange Commission were capitalized and amortized on a straight-line basis and interest costs were accrued on the related liability, net income would have been affected as follows:

	Fiscal year ended	
	March 1, 1975	*March 2, 1974*
Increase in depreciation expense .	$9,220,295	$8,699,641
Increase in interest expense	9,547,314	8,283,692
Decrease in rent expense	15,556,824	15,440,319
Decrease in income tax expense . .	1,541,172	740,647
Pro forma decrease in net income .	$1,669,613	$ 802,367

Note payable covenants restrict the Company from entering into additional leases which will result in annual net lease rentals in excess of 2.75% of consolidated net sales and from the sale and leaseback of stores and distribution facilities on which construction has been completed for two years.

(9) Investments in Preferred Stocks: Management has decided to dispose of the investment as expeditiously and economically as possible. Accordingly, the preferred stocks are considered current assets and valued principally at market, which at March 1, 1975 and March 2, 1974, was approximately $1,896,000 and $1,864,000, respectively, below original cost.

(10) Pension Plan: Pension expense under the Company's non-contributory plan was $929,000 in the fiscal year ended March 1, 1975 and $620,000 in the fiscal year ended March 2, 1974.

The recently enacted Pension Reform Act of 1974 will make it necessary for the Company to amend its pension plan to meet certain requirements of the Act. The increase in pension expense in the fiscal year ending April 2, 1977 is estimated to be approximately $650,000. There are no unfunded vested benefits nor unfunded prior service costs.

(11) Reorganization Expenses: At March 2, 1974, the Company recorded a reserve in the amount of $9,039,000 for estimated costs to be incurred in connection with the planned sale and liquidation of certain Grand Way units. Due to a subsequent change in circumstances, the Company revised its plan, resulting in the closing of a lesser number of units. Accordingly, the reserve previously established was re-evaluated and adjusted to $8,195,000 resulting in a credit to income of $844,000 during the fiscal year ended March 1, 1975.

During the fiscal year ended March 1, 1975 the Company undertook further revisions of its operations including dis-

continuance of issuing Triple S Blue Trading Stamps in certain major market areas, closing of trading stamp redemption centers in these areas, closing of certain Grand Catalog Showrooms and the sale of its E-Z Shop division. As a result of these undertakings, the Company recorded reserves during the fiscal year ended March 1, 1975 of $925,000. This amount is net of a credit of $2,012,000, included in operating expenses, resulting from a re-evaluation of the estimated future liability for redemptions of trading stamps carried out in connection with the aforementioned substantial reduction in the trading stamp business. No significant gain or loss was incurred in connection with the sale of E-Z Shops. Sales relating to the various operations referred to above, after elimination of intercompany transactions, amounted to approximately $35,700,000 during the fiscal year ended March 1, 1975.

Reserve balances for store closings of approximately $5,628,000 and $9,039,000 were included in accounts payable and accrued liabilities at March 1, 1975 and March 2, 1974, respectively.

In prior years, provisions for store closings were reflected as extraordinary items under the accounting principle in effect prior to the adoption of Accounting Principles Board Opinion No. 30 (APB 30). Had APB 30 not been in effect, reported net income for the fiscal year ended March 2, 1974 would have been the same, but the provisions for store closings would have been reflected as an extraordinary item, net of related income taxes. Accordingly, income before extraordinary items would have been approximately $7,010,000 ($1.09 per share).

In the fiscal year ended March 2, 1974, prior to any phasing out of the trading stamp business, Grand Union modified its basis of computing the liability for unredeemed trading stamps by using statistical sampling techniques. As a result, operating expenses were increased by $1,774,000 for the fiscal year ended March 2, 1974.

Reports of Independent Accountants

To the Board of Directors
and Stockholders of
The Grand Union Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and reinvested earnings and of changes in financial position present fairly the financial position of The Grand Union Company and Subsidiaries at March 1, 1975, the results of their operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co

April 11, 1975
Hackensack, New Jersey

To the Stockholders
and Board of Directors,
The Grand Union Company,
Elmwood Park, N.J.:

We have examined the consolidated balance sheet of The Grand Union Company and Subsidiaries as of March 2, 1974 and the related statements of income and reinvested earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As originally issued, our opinion on the financial statements was qualified with respect to the adjustment that might result from the future disposition of certain general merchandise units described in Note 11 to the financial statements. We have been informed by the successor accountants that subsequent to such issuance this uncertainty has been substantially resolved and, accordingly, we no longer qualify our report with respect to this matter.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Grand Union Company and Subsidiaries at March 2, 1974, and the results of their operations and the changes in their financial position for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, with which we concur, in the method of determining income before extraordinary items as described in Note 11 to the financial statements.

Coopers & Lybrand

Newark, New Jersey
May 24, 1974, except for matter described
in the second paragraph as to which the
date is April 11, 1975

Five-Year Financial Summary (dollar amounts in thousands except for per share figures)

FOR THE FISCAL YEAR ENDED	*March 1, 1975*	*March 2, 1974*	*March 3, 1973 (a)*	*Feb. 26, 1972*	*Feb. 27, 1971*
Sales	**$1,562,736**	$1,493,969	$1,379,681	$1,304,411	$1,200,831
Cost of sales	**1,228,744**	1,177,442	1,086,729	1,022,220	938,961
Gross profit	**333,992**	316,527	292,952	282,191	261,870
Operating and general expenses:					
Salaries and wages to employees in store operations	**145,140**	145,173	136,927	125,536	112,040
Other selling, administrative and general expenses	**162,151**	156,380	140,236	129,364	118,343
Other deductions (income):					
Provision for store closings	**2,093**	9,039	—	—	—
Write-down of preferred stocks	**4,619**	1,864	—	—	—
Interest, principally on notes and debentures	**4,880**	2,610	235	288	378
Loss (gain) on disposition of fixed assets	**406**	(131)	439	647	596
Interest on temporary cash investments	**(2,318)**	(663)	(411)	(382)	(408)
Dividends from investments	**(1,279)**	(699)	(151)	—	—
Income before income taxes and extraordinary items	**18,300**	2,954	15,677	26,738	30,921
Provision for income taxes	**8,796**	645	6,685	12,720	15,180
Income before extraordinary items	**9,504**	2,309	8,992	14,018	15,741
Extraordinary items	**—**	—	(612)	(1,000)	—
Net income	**$9,504**	$2,309	$8,380	$13,018	$15,741
Income per common share:					
Before extraordinary items	**$1.51**	$ .35	$1.40	$2.16	$2.42
Extraordinary items	**—**	—	(.10)	(.16)	—
Net income per common share	**$1.51**	$ .35	$1.30	$2.00	$2.42
Cash dividends	**$ .80**	$ .80	$ .80	$ .80	$ .80
Net income as a percent of sales	**.61%**	.15%	.61%	1.00%	1.31%
AT THE YEAR END					
Ratio of current assets to current liabilities	**2.07 to 1**	1.87 to 1	1.70 to 1	1.81 to 1	1.88 to 1
Equity per common share	**24.51**	23.45	23.92	23.38	22.15
Number of stores at year end:					
Supermarkets	**503**	531	539	542	543
Grand Way stores	**14**	23	23	26	31

(a) 53-week fiscal year

MANAGEMENT DISCUSSION AND ANALYSIS OF THE FIVE-YEAR FINANCIAL SUMMARY

General

Sales increases for the past five years have been as follows:

Fiscal Year Ended	Percentage Sales Increase
February 27, 1971	7.9%
February 26, 1972	8.6%
March 3, 1973	5.8%
March 2, 1974	8.3%
March 1, 1975	4.6%

A major contributing factor to the increases in sales has been inflationary pressures, particularly in the food industry. The sales increase in the fiscal year ended March 1, 1975 is below the rate of inflation and suggests lower physical volume of products sold.

During the five-year period, sales have been affected by intense competition in the supermarket industry. Significant changes in marketing strategy have taken place, particularly in the last three years, as many competitors, often with important shares of market in areas where the Company operates, switched from trading stamps to more effective discount price promotion programs. Sales increases should also be evaluated in terms of the number and size of operating units.

During the five-year period, costs of goods sold have increased, principally due to higher costs of merchandise in an inflationary economy. Gross profit percentages declined in each of the three fiscal years ended March 2, 1974, but showed a slight increase for the fiscal year ended March 1, 1975:

Fiscal Year Ended	Gross Profit Percentage
February 27, 1971	21.81%
February 26, 1972	21.63%
March 3, 1973	21.23%
March 2, 1974	21.19%
March 1, 1975	21.37%

One factor influencing this slight increase in the latest fiscal year was an improved gross profit mix resulting from the closing of approximately 9% of the Supermarket Division's stores, which were small units with low gross profit percentages. The Company has been renovating and enlarging existing stores and opening large stores with wide merchandise assortments in order to improve gross profit.

The dollar increase in salaries and wages in each of the three years ended March 2, 1974 related primarily to increases in hourly wage rates and fringe benefits, which are continuing. The slight dollar decrease for the latest fiscal year ended March 1, 1975 was unusual and reflects the elimination of labor costs of closed units as well as the substantial completion of a store productivity program which resulted in a decrease in the number of employees and employee hours worked.

From its high point in the fiscal year ended February 27, 1971, the Company's net income declined in the three fiscal years through the fiscal year ended March 2, 1974 due to highly competitive market conditions as food chains sought to increase sales to cover increasing costs, federal price controls during two of these years, and the revamping of certain operations of the Company, particularly in the fiscal year ended March 2, 1974. The reversal of the decline in net income in the fiscal year ended March 1, 1975 is primarily related to increased gross profit dollar earnings, together with certain programs, particularly in labor cost reduction, which have been implemented since Cavenham Limited purchased approximately 51% of the outstanding Grand Union shares and restructured the Company's management.

Set forth below are comparisons of other significant line items in the Five-Year Financial Summary for the periods indicated.

FISCAL YEAR ENDED MARCH 1, 1975 vs. FISCAL YEAR ENDED MARCH 2, 1974

Other selling, administrative and general expenses

The increase in depreciation expense of approximately $3,000,000 represents the full effect of the substantial capital expenditure program carried out during the fiscal year ended March 2, 1974.

Other deductions (income)

During the fiscal year ended March 1, 1975 a provision of approximately $2,100,000 was established for the closing of Triple-S Blue Stamp Redemption Centers and certain Grand Catalog Showrooms, which was partially offset by revised estimates relating to provisions previously established for Grand Way store closings. This compares with a provision of approximately $9,000,000 which was established for Grand Way store closings in the previous fiscal year.

The $4,600,000 provision for the fiscal year ended March 1, 1975 represents a reduction of the preferred stock portfolio to approximate market and realized losses on liquidation of the portfolio. Approximately $1,900,000 of similar losses were recognized in the prior fiscal year.

The increase in interest expense of approximately $2,200,000 is a result of interest cost on a total of

$60,000,000 in notes obtained at various times through private placements in the fiscal year ended March 2, 1974 and early in the fiscal year ended March 1, 1975.

The increase of approximately $1,700,000 in interest on temporary cash investments results from the investment of cash not immediately required for operating purposes at the relatively high interest rates prevailing through most of the fiscal year ended March 1, 1975.

The increase of approximately $600,000 in dividends in the fiscal year ended March 1, 1975 related to the dividends received from the investment in the preferred stocks.

The gain on the disposition of fixed assets in the fiscal year ended March 2, 1974 was unusual and reflected several condemnation awards which were in excess of book value.

The increase in the effective tax rate in the fiscal year ended March 1, 1975 to 48% from the previous fiscal year's 22% is due to the fact that the preferred stock write-downs resulted in a reduction of taxable income with only limited corresponding tax benefit during this period. For financial reporting purposes the full tax benefit corresponding to such write-downs could not be reflected in the Company's financial statements because the utilization of these losses was not assured beyond a reasonable doubt during this period. In addition, the effective tax rate in the fiscal year ended March 2, 1974 was affected to a great degree by utilization of investment tax credit applied to a lower income before taxes.

FISCAL YEAR ENDED MARCH 2, 1974 vs. FISCAL YEAR ENDED MARCH 3, 1973

Other selling, administrative and general expenses

Among the reasons for the increase of approximately $16,100,000 in the fiscal year ended March 2, 1974 compared with the fiscal year ended March 3, 1973 are:

An increase in rent expense of approximately $4,000,000 due primarily to the opening of additional larger units, together with increased percentage rent payments.

An increase in depreciation expense of approximately $2,000,000 representing the partial effect of the substantially increased capital expenditure program over the previous year.

An increase in taxes other than income taxes of approximately $3,300,000 representing primarily increases in employee benefit taxes (such as FICA) due to increases in the applicable rates and the amounts of taxable compensation and increases in real estate taxes.

An increase of approximately $1,800,000 resulting from a modification of the basis used to compute the liabilities for unredeemed trading stamps by using a statistical sampling study.

Other deductions (income) and Extraordinary items

The fiscal year ended March 3, 1973 contained an extraordinary item amounting to approximately $600,000, after tax benefits, relating to the closing of certain Grand Way stores and gains on the sale of investment securities. Due to a change in accounting rules, similar expenses in the fiscal year ended March 2, 1974 were recorded as other deductions. In connection with the curtailment of the general merchandise store division (Grand Way) during the fiscal year ended March 2, 1974 Grand Union recorded a similar provision for store closings in the amount of approximately $9,000,000.

In connection with management's decision to dispose of the preferred stock investment portfolio, the Company valued its securities principally at market at March 2, 1974 which resulted in an unusual charge of $1,864,000.

The increase of approximately $550,000 in the dividend income in the fiscal year ended March 2, 1974 represents dividends on the preferred stocks described above.

The increase of approximately $2,400,000 in interest expense represents the interest expense relating to the issuance of $45,000,000 in notes through private placements in the fiscal year ended March 2, 1974.

In the fiscal year ended March 3, 1973, the effective tax rate was 43% as compared with an effective tax rate of 22% in the fiscal year ended March 2, 1974 which resulted principally from a relatively high investment tax credit of approximately $1,600,000 applied to a significantly lower income before taxes.

General Information

Description of Business

The Grand Union Company is the nation's ninth largest supermarket chain with operations in 12 states, Puerto Rico and the U.S. Virgin Islands. The company employs nearly 22,000 people in its more than 500 supermarkets, Grand Way general merchandise stores, Triple-S Blue Stamp Redemption Centers, Grand Catalog Showrooms and North American Equipment Corporation subsidiary.

Transfer Agent

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Registrar

Chemical Bank
20 Pine Street
New York, New York 10015

General Offices

The Grand Union Company
Corporate Headquarters
100 Broadway
Elmwood Park, New Jersey 07407
Telephone: (201) 796-4800

Stock Listing

Common stock of The Grand Union Company is traded on the New York Stock Exchange. The company's ticker symbol is "GUX."

Stock Price and Dividend Data

Fiscal Quarter	Common Stock Price Range High — Low	Common Dividends Paid (per share)
1st 1973	15⅜ — 11⅜	20 cents
2nd 1973	12⅜ — 9½	20 cents
3rd 1973	16⅛ — 10¾	20 cents
4th 1973	13¾ — 11	20 cents
1st 1974	14 — 9¾	20 cents
2nd 1974	13 — 9⅝	20 cents
3rd 1974	10⅜ — 8	20 cents
4th 1974	13⅞ — 7⅛	20 cents

Annual Meeting

The annual meeting of stockholders of The Grand Union Company will be held at 10 A.M. on Wednesday, June 18, 1975, in the Bergen and Passaic Rooms of the Marriott Motor Hotel, Interstate Route 80 and Garden State Parkway Interchange 159, Saddle Brook, New Jersey.

A notice of the meeting, a proxy statement and form of proxy are being mailed with this report to each stockholder of record as of May 5, 1975.

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THE GRAND UNION COMPANY
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